Office of Tax Simplification: Review of Simplification: ATT, CIOT and LITRG input

General Features

22 April 2022

The Low Incomes Tax Reform Group, CIOT and ATT have each met with the Office of Tax Simplification to discuss their Review of Simplification scoping document (tinyurl.com/3vdex8fm).

LITRG discussions

The Low Incomes Tax Reform Group (LITRG) had a wide-ranging discussion with the Office of Tax Simplification (OTS). Drawing in part on our December 2020 report, 'A better deal for the low-income taxpayer' (www.litrg.org.uk/better_deal) and recent experience, we gave examples of complexity ranging from problems logging on to the Government Gateway to the growing numbers of unrepresented taxpayers dabbling in cryptoassets.

More generally, we talked about simplification having two distinct elements: first, making the rules themselves simpler; and second, making the system administratively simple so it is easy to comply with irrespective of the underlying complexity of the rules. For the smooth running of the tax system, the second element can be more important. The complexity of the overall tax system is not as relevant to an unrepresented taxpayer as being able to easily ascertain and understand the parts which are relevant to them, and knowing how to comply with their obligations given their personal circumstances. We discussed how this can unfortunately go awry when guidance is oversimplified, to the extent that it can be confusing or misleading and therefore contribute to non-compliance, despite its writers' best intentions.

Benefits from simplification should be plentiful. Most obviously, it should mean that people pay the right amount of tax and claim all the reliefs and allowances they are due. Simplification should also help people to avoid pitfalls that come with inadvertently getting things wrong, such as the compounded complexity, cost and stress that result from having to unpick problems possibly many years down the line. That said, simplification can potentially lead to unfairness (a flat rate of tax being simple, for example, but potentially poorly targeted) so it must be appreciated that there is a balance to be struck between simplicity and fairness.

We also observed that – somewhat ironically – measuring simplification is no easy feat. One idea we put forward is that the OTS could make use of HMRC complaints data and the Adjudicator's experience to help gauge common areas of misunderstanding between HMRC and taxpayers (and then whether any changes result in a reduction of problems).

Finally, it would be preferable for complexity to be avoided if policymakers were to consider various factors upfront, such as how a tax proposal will interact with other parts of government (for example, welfare benefits for those on lower incomes). While appreciating that various financial support payments have been developed and implemented at pace over the last two years, we highlighted problems that have occurred where tax and other implications have not been considered in advance.

CIOT discussions

The CIOT's discussions covered a number of similar points, such as simplification being both tax technical as well as administrative, and the need to consider the impact of proposals at an early stage to minimise further complexity. We felt that some recent policies (such as the requirement to report residential property disposals within 30 days (now 60 days) have introduced both tax technical and administrative complexities, and would have benefited from a more thorough consideration of these aspects during the policy development process. It was recognised that it was better to prevent complexity arising in the first place, than to try and simplify an existing regime.

We also recognised that it was difficult to specify 'success measures'. The OTS's role is to offer recommendations and advice to the Chancellor about how to make the UK tax system simpler, and their implementation (or otherwise) is out of its control. As

well as sympathising with this position (as it is also difficult to judge the ‘success’ of our own technical work), we felt that the breadth of the OTS’s engagement with individuals, businesses, agents and government departments were one of its key strengths. The recent approach of preparing evaluation papers following up on previous reports was also welcomed.

ATT discussions

The ATT discussed how simplification does not always mean the same thing to all different stakeholders. Taxpayers will not necessarily be as interested as agents in the simplification of underlying legislation, but both will care about the ease of use of HMRC’s IT systems.

We highlighted the importance of policy, legislation and operation all being coherent and how we would like to see the development of a future administration framework done in parallel with the design of the underlying IT systems.

We also shared feedback from members over the challenges of simplification in retrospect and welcomed the OTS’s recent evaluation paper on the Single Customer Account as having much more of a forward-looking approach.

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